

Message Text

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C O N F I D E N T I A L LONDON 12919

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E.O. 11652: GDS
TAGS: ENRG, EINV, UK
SUBJECT: EXXON VIEWS ON THE BRITISH OIL CLIMATE

REF: LONDON 12437

1. THE SENIOR OFFICIALS OF ESSO EUROPE INDICATE THAT THE DEPARTMENT OF STATE HAS SOUGHT EXXON'S VIEWS ON THE NEW CHANGES AFFECTING THE OIL INVESTMENT CLIMATE IN BRITAIN AND HAVE ASKED THAT THE EMBASSY REPORT THE FOLLOWING POINTS. THE DATA AND SOURCE SHOULD REMAIN CONFIDENTIAL.

2. EXXON HAS ALREADY INVESTED OVER THREE BILLION

DOLLARS INTO OFFSHORE NORTH SEA PROJECTS ALONE, NOT COUNTING THEIR DOWNSTREAM ACTIVITIES. THEY ARE CURRENTLY INVESTING ABOUT TWO MILLION DOLLARS A DAY AND PRESUMABLY WILL BE PUTTING IN MORE. OVER 70 PERCENT OF THEIR DEBT IS IN U.S. DOLLARS. THEY HAD EXPECTED TO BEGIN TO EARN A RETURN ON THEIR INVESTMENT IN 1981, BUT ANTICIPATED PROFITS ARE NOW FAR BEHIND. THE GOVERNMENT'S PROPOSED TAX CHANGES WILL REDUCE
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OVERALL NORTH SEA CASH FLOW BY 25 PERCENT.

3. EXXON IS IN "A STATE OF OVERALL UNCERTAINTY" ABOUT THEIR FUTURE IN THE NORTH SEA. THE TWO DETERMINANTS OF THIS UNCERTAINTY ARE (A) THE GROWING ROLE OF THE STATE IN OIL AT THE EXPENSE OF THE PRIVATE SECTOR AND (B) THE GOVERNMENT'S NEW FOUND PROPENSITY TO CHANGE

THE TAX RULES DESPITE WHAT EXXON FEELS WERE ASSURANCES GIVEN TO THE CONTRARY. THE COMPANY (AND INDEED THE U.K. OFFSHORE OPERATORS' ASSOCIATION AS A WHOLE) FELT THAT WHEN THE PETROLEUM REVENUE TAX (PRT) WAS INTRODUCED IN 1975 THE GOVERNMENT MAINTAINED THEY WOULD INCREASE THE TAKE ONLY IF OIL PRICES ROSE IN REAL TERMS, WHICH THEY HAVE NOT. THE COMPANY HAS A NUMBER OF OFFSHORE DEVELOPMENT PROJECTS WHICH WILL BECOME UNECONOMIC UNDER THE NEW TAX RULES; THUS THE RATE OF EXPENDITURE WILL GO DOWN. NOW THAT THE PRACTICE OF VIOLATING COMMITMENTS IS ESTABLISHED, EXXON FEELS, MORE CHANGES MIGHT COME IN THE FUTURE.

4. EXXON HAS NO INTEREST IN SIXTH-ROUND LICENSES. THE TAX UNCERTAINTIES ARE NOT THE ONLY FACTOR IN THIS DISINTEREST: THE SIXTH-ROUND CONDITIONS THEMSELVES ARE UNATTRACTIVE.

5. ESSO EUROPE HAS HEARD THAT ENERGY SECRETARY BENN MAY SOON PROPOSE THAT THE CHAIRMAN OF THE BRITISH NATIONAL OIL CORPORATION (BNOC) SIT ON THE BOARD OF BRITISH PETROLEUM (BP), THEREBY ACTIVATING THE GOVERNMENT'S POLICY ROLE IN BP. (HMG OWNS 51 PERCENT OF BP BUT HAS TRADITIONALLY BEEN A SILENT SHAREHOLDER). REPORTEDLY, BENN IS UNHAPPY WITH BP'S DECISION TO INVEST THE PROCEEDS OF THE FORTIES FIELD CASH FLOW
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IN GERMANY (LONDON 9685).

6. ESSO EUROPE WILL PROVIDE US MORE DETAILED INFORMATION ON THE ANTICIPATED IMPACT OF THE PROPOSED PRT CHANGES IN ABOUT TWO WEEKS; WE WILL REPORT FURTHER.

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